

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 07 TEGUCIGALPA 003365

SIPDIS

STATE FOR WHA, WHA/PPC, AND WHA/CEN
STATE FOR PM, INL, EB, AND CA

E.O. 12958: DECL: 12/13/2012

TAGS: [OVIP](#) [MARR](#) [MASS](#) [MOPS](#) [PREL](#) [PGOV](#) [SNAR](#) [ECON](#) [HO](#)

SUBJECT: SCENESETTER FOR GENERAL HILL'S VISIT TO HONDURAS
DECEMBER 18-19

Classified By: Charge d'Affaires, a.i., Roger Pierce;
Reasons 1.5 (B) and (D).

11. (C) SUMMARY. Honduran President Ricardo Maduro, in office since January, faces numerous challenges in one of the poorest and most corrupt countries in the Western Hemisphere. His Administration has been stalled on its domestic agenda since June as it tries to reconcile its ambitious goals to its straitjacketed financial situation. Bilateral relations between the U.S. and Honduras are excellent; Honduras was the first country in Central America (and the second in Latin America) to sign an ICC Article 98 Agreement with the U.S. and its support for the international counterterrorism effort is steadfast. The United States and Honduras have maintained a long-standing close relationship framed by such events as the establishment of the banana plantations in the late 1800s, the Contra wars of the 1980s, and reconstruction efforts in the wake of the October 1998 fury of Hurricane Mitch. END SUMMARY.

Key Issues in Bilateral Relationship

12. (SBU) The central themes in our bilateral diplomatic efforts in Honduras are combating international crime by strengthening governance and attacking corruption, assisting American citizens, fostering economic development, promoting regional stability, promoting trade and investment, and combating terrorism. However, the underlying difficulty to realizing USG objectives is improving the administration of justice and rule of law. President Ricardo Maduro's government is fully engaged on all of these issues, supports judicial and political reform, and is seeking to transform Honduras so that law and order can be restored and economic growth ignited. He faces formidable challenges from entrenched economic and political interests in moving his agenda forward.

Status of the Maduro Government

13. (SBU) President Maduro is facing increasing criticism from the political opposition over his government's policies and continued dissatisfaction from his own party's Members of Congress because of his Administration's technocratic style. The Honduran Congress is a focal point of political opposition to his policies. It is a corrupt institution riddled with avaricious politicians, and Maduro's National Party does not control a majority of the unicameral body. The ongoing problems within his own party are serious and threaten his broader political agenda, which will require legislation to advance. Continuing political negotiations will be needed to manage this situation. Maduro's personal life also intruded into the political sphere. His October wedding to a Spaniard was criticized by many Hondurans who viewed the President as distracted by his personal life.

14. (SBU) The President's standing has remained stalled at a low point since June. Faced with slow progress in his efforts to promote regional economic integration, Maduro's team is pinning its hopes that a U.S.-Central American Free Trade Agreement (CAFTA) can serve as a catalyst to regional economic cooperation. Maduro is also beginning to hear wider disillusionment among the Honduran public as violent crime levels are increasing once again despite his successful initial "zero tolerance" law and order campaign. Notwithstanding his crackdown on street crime, actual ongoing criminal investigations, in particular homicides, remain stalled.

Counterterrorism Cooperation

15. (SBU) Maduro is a good and reliable friend of the U.S. on counterterrorism. His government hosted a major U.S. military counterterrorism exercise in March and has quickly responded with freeze orders to all U.S. requests regarding suspect terrorist bank accounts. No terrorist assets have been found in Honduran financial institutions, to date. The

GOH still needs to take the following concrete steps: designate a national coordinator for counterterrorism, file its national report in accordance with United Nations Security Council (UNSC) Resolution 1373, and most of all, sign and/or ratify the five outstanding international conventions/protocols and two OAS conventions (1971 and 2002) against terrorism. It is also of vital importance for Honduras to improve security at its maritime ports, particularly Puerto Cortes.

Iraq

16. (C) While the GOH is in general supportive of key USG foreign policy goals, the Ministry of Foreign Relations appears hesitant to be out front supporting the USG position on Iraq. Securing a UNSC Resolution on Iraq has helped mollify MFA officials concerns about the need for multilateral support via the United Nations. Lacking Rio Group consensus the GOH is not yet willing to make a public statement backing U.S. policy on Iraq. However the U.S. should be able to count on Honduras' support when a final decision is taken.

Anticorruption

17. (SBU) The new U.S. policy against corruption struck a nerve in Honduras, especially any mention of our new visa revocation authorities. Politicians in Congress and certain business elements feel the U.S. is attacking them. Maduro is committed to addressing corruption, even if it will cost him political support within his party. The Supreme Court President is also on board. Given the scope of the problem, any public discussion about the country's pervasive corruption is a positive development.

Supreme Court and Judicial Reform

18. (SBU) The Supreme Court is developing into an independent branch of power, unlike all of its predecessor courts since democracy was restored in 1982. It is pro-reform in orientation and fighting for its prerogatives. In some respects, the development of the court in Honduras' restored democracy is approaching its "Marbury v. Madison" moment. The emerging issue is whether it can become a fully independent and co-equal branch of political power, consistent with the separation of powers provision in the Honduran Constitution. The established political order is fighting that prospect with all its might. In fact, the Congress recently seized the political opportunity to introduce legislation that would give itself the power to interpret the constitutionality of the laws it passes.

Public Security/Human Rights

19. (SBU) Upon taking office on January 27 President Maduro's first act was to fulfill his main campaign promise -- a zero tolerance campaign against the country's out-of-control crime situation. He deployed more than 5,000 soldiers to the streets to support the police. The public responded enthusiastically. However, despite the initial success of establishing a visible police presence, violent crime, particularly homicides and kidnappings, has only fallen marginally. Public support is fading and the campaign needs some visible victories to restore confidence in the government's program. We are helping the Maduro government establish an anti-kidnapping unit, increase intake/training of police recruits, create a model tourist police force, boost its counternarcotics efforts, and expand the frontier police. The country's geographic position makes it an obvious strategic transit point for narcotics trafficking, alien smuggling operations and other organized crime activities.

10. (SBU) Extrajudicial killings, especially of children/young adults between 1998-2001, have been a source of serious concern and only recently has the GOH begun to take steps to investigate the hundreds of unsolved cases. There has been some discussion of the establishment of a Truth Commission to look into unresolved alleged human rights abuses from the 1980s. There are serious problems with child labor in several industries, particularly melon, coffee, and shrimp (but not the maquila) sectors, and trafficking in persons of women/children for prostitution in the U.S. and children for commercial sexual exploitation in Central America. USAID and Peace Corps have both been involved in HIV/AIDS prevention.

Consular Issues

11. (SBU) Some 500,000 Hondurans, both legal and illegal, live in the U.S., a fact that places immigration issues high on the bilateral agenda. (The population of Honduras is 6.5 million.) There is deep appreciation for the Administration's extension of Temporary Protected Status (TPS) in the U.S. and interest in possible congressional action on the pending Nicaraguan Adjustment and Central American Relief Act (NACARA), which would give immigration parity for Hondurans. With fourteen thousand American citizens residing in Honduras and many thousands visiting Honduras annually for tourism and business American Citizen Services are a key part of the Embassy's work. Until recently, there was little progress in most of the now more than 30 American citizen murder cases; however, there have been three convictions in these cases in recent weeks. In the last year the GOH has increased cooperation with the Embassy on these cases, including establishing two prosecutors. However, little progress has been made on extradition cases involving American Citizens wanted for felonies in the U.S.

Border Relations

12. (SBU) Honduras has border disputes with its three Central American land neighbors and its seven maritime neighbors. Maduro is personally engaged with his Presidential counterparts to address these issues. Its land and maritime disputes with El Salvador and Nicaragua are the most heated. The Gulf of Fonseca on the Pacific coast is a particularly difficult point. A 1992 International Court of Justice (ICJ) ruling laid out shared areas of control in the Gulf of Fonseca and established the land border between Honduras and El Salvador, although El Salvador has been slow to implement the ruling. In September of this year El Salvador requested a revision of the 1992 ICJ ruling.

13. (SBU) On the Caribbean coast, Honduras and Nicaragua have a long-standing maritime border dispute over the 15th parallel. Honduras provoked Nicaraguan retaliation when it signed a maritime treaty with Colombia recognizing the 15th parallel as its maritime border in 1999. Nicaragua filed an ICJ case over the maritime border and more importantly in 1999 slapped a punitive 35 per cent tariff on Honduran goods that remains in place despite a Central American Court of Justice ruling that it is illegal. With former Nicaraguan President Arnoldo Aleman deposed as President of the National Assembly, GOH officials have expressed renewed optimism that Nicaraguan President Enrique Bolanos will make good on private assurances to lift the tariff and thereby take an important step forward toward regional economic integration, especially given the fact that the ICJ recently ruled in favor of the GOH's petition against the tariff. You may wish to compliment Maduro on the GOH's restraint and note that the regional integration benefits of a CAFTA with the U.S. (as well as other integration efforts) will be undermined by a trade war.

Troubled Economy Endangers IMF Program and HIPC Debt Relief

14. (SBU) President Maduro inherited a stagnating economy and seriously deteriorated government finances from the previous government. The GOH missed all key International Monetary Fund (IMF) targets in 2001. Even after the Maduro economic team won passage of austerity and tax measures in May of this year, the government's budget deficit is still expected to be a high 5.9 percent of GDP. It is important for the GOH to undertake the meaningful and long overdue reforms needed to work out a new IMF program.

15. (C) During its November visit the IMF team did not reach agreement with the GOH on draft terms of a three-year Poverty Reduction and Growth Facility Program (PRGF). In consultations with the IMF mission, the GOH developed a plan to improve the fiscal situation in the next few months. If all goes well, the team will return to Honduras in March or April to begin negotiations on a program. The delay of a program jeopardizes \$240 million in debt relief, concessional loans and grants from some donors. The IMF maintains that the situation is unsustainable, unless donors want to continue to fund public sector salaries, and watch investment in poverty reduction programs continue to dwindle. The Maduro administration has asked the U.S. to push the IMF for flexibility, but the Embassy favors supporting the IMF on its push for real fiscal and economic reform in Honduras.

16. (SBU) International Financial Institution (IFI) and bilateral donor disbursements will be held up until the new IMF program is in place. There could also be pressure on GOH Paris Club debt service payments (USD 100 million per year).

In the meantime, the completion point for Highly Indebted Poor Countries (HIPC) debt reduction (worth USD 900 million) continues to slip back further. Ultimately, this fiscal situation could impact Honduras' eligibility for Millennium Challenge Account grants.

17. (SBU) The Honduran economy is growing slowly (estimated real GDP growth of 1.8 percent this year). Low world coffee prices continue to hurt the economy in rural areas. Inflation continues to decrease slowly, estimated at 8-9 percent in 2002. The currency is depreciating at a rate of about five percent per year. The economy is dominated by agriculture - particularly the production of coffee, bananas and cultivated shrimp - although the in-bond apparel assembly industry has grown dramatically over the past decade and remittances, from Hondurans living overseas, continues to grow rapidly (up 38 percent in the first six months of this year) and have become the most important source of foreign exchange. The U.S. is Honduras' largest trading partner; roughly 150 U.S. companies do business here. While many social indicators are improving, two-thirds of all Hondurans live in poverty and average educational levels are very low.

U.S.-Central America Free Trade Agreement (CAFTA)

18. (SBU) Maduro has personally identified himself with a CAFTA as his government's principal trade objective. The Minister of Industry and Trade is reorganizing the Ministry (historically fairly weak) and adding staff in a belated effort to get ready for the negotiations. The Maduro administration has also been more cooperative with the U.S. in the World Trade Organization (WTO) in Geneva. Honduras (along with other Central American countries) has been supportive in the FTAA ministerials but to date has not taken an active role in the negotiating groups.

19. (SBU) Latent protectionism exists in the private sector, especially agriculture, but the general attitude toward a free trade agreement in Honduras is guardedly positive. The textile and apparel industry in particular believes an FTA is the only way that the Honduran apparel sector can survive the elimination of quotas in 2005 and compete with Asian manufacturers. As such, it is the strongest supporter of CAFTA.

U.S. Investment Faces Problems

20. (SBU) The Maduro government understands that Honduras needs foreign (and domestic) investment to spur economic growth but has placed emphasis on the more immediate problems of political and judicial reforms, the fiscal deficit, and needed improvements in security, education and health. Maduro will tout a new law on simplification of administrative procedures and formation of a national competitiveness council, headed by Vice President Vicente Williams, to enhance the investment climate at all levels of society. The government has identified tourism, agribusiness, and forestry as important sectors that could create much-needed jobs.

21. (SBU) Much more needs to be done to declare Honduras "open for business." Maduro needs to find a way to get his cabinet (and the prickly legislative and judicial branches) to make meaningful changes that will resolve the key problems: poor and expensive infrastructure; weak legal system; personal security, education and health conditions; land tenure problems; and opposition to large foreign investments by well-connected vested interests.

22. (SBU) The Honduran government has stalled in its past efforts to liberalize and privatize the electricity and telecommunications markets. On November 15, the National Electric Energy Company (ENEE) announced that Honduran company Lufussa was winner of the 210 mega-watts electricity tender, ignoring Lufussa's failure to comply with bid requirements and serious allegations of impropriety. This was a heavy blow for U.S. company AES, which seeks to build a \$600 million combined cycle plant in Puerto Cortes. On November 26, AES challenged the award to ENEE's decision, citing a failure to disqualify Lufussa for the omissions in its bid (e.g., insufficient transmission facilities and failure to specify the type of fuel to be used) and other irregularities. The Honduran Attorney General and the Office of the Inspector General have announced that they are investigating the matter. The GOH telecom regulatory agency is also bidding out a second cellular phone license this year; one U.S. company has been pre-qualified. The GOH has requested USG policy support for liberalization of the telecom (through the Trade and Development Agency) and power (through USAID) sectors. However, in order to make these long overdue structural reforms a reality, the Maduro government must follow through on its commitments.

123. (SBU) Land tenure problems (combined with a weak judicial system) are endemic in Honduras, and undermine efforts to develop the tourism, agriculture and forestry sectors. They also deter new investments in a variety of other sectors. The Embassy has files on 112 property dispute cases (generally squatter/land reform cases and title disputes), of which 32 are active. There are an additional 68 commercial disputes, of which 14 are currently active. The GOH is adopting a law allowing some of the land cases to be submitted to arbitration and is working on an improved property registry system. In recent weeks, we have seen notable progress in handling by the judicial system of commercial and investment disputes involving U.S. citizens.

Money Laundering and Bank Failures

124. (SBU) Strengthened money laundering legislation, with an antiterrorist financing clause, was the first law to be adopted by the new Congress in late February of this year. The GOH has followed up rapidly with creation of a Financial Information Unit. Currently, 70 potential cases are under investigation. Weakness of the financial system remains a key concern. The GOH took over the two most troubled banks in May 2002, arranged for the absorption of a third undercapitalized bank and is actively promoting mergers among the remaining 20 private banks.

Bilateral Political/Military Issues

125. (C) In January of 1999, the constitution was amended to abolish the position of military commander in chief of the Honduran Armed Forces (HOAF), thus codifying civilian authority over the military. Honduras now has a civilian Minister of Defense (MOD) and a Chief of the Joint Staff who heads the HOAF. Civilian control is well accepted by the HOAF, and the transition to civilian control has resulted in greater transparency and fiscal accountability. The current MOD, Fred Breve, enjoys a good relationship with the HOAF military leadership, but the Office of the Minister of Defense still lacks a staff that could provide institutional memory and continuity between the change in political administrations.

126. (U) There are a number of bilateral political/military issues with which Post routinely deals - brief summaries of recent issues follow.

Cerro La Mole Radar

127. (C) In 1993, the U.S. entered into an agreement with the GOH regarding the maintenance of the radar located at Cerro La Mole, under which it agreed to pay 75 percent of maintenance costs up to \$400,000 per year. The U.S. has paid nothing under the agreement, and the issue affects relations between the U.S. and Honduran militaries. Post has sought guidance from DOD and State on how to resolve our obligations, and recommended that the U.S. either replace the radar with a solid state version (TPS-78) or with another TPS-70 transferred from counterdrug programs. Alternatively, the U.S. could repair the radar to operational status. When operational, the radar provides a view of the Honduras-Nicaragua-El Salvador border areas and the Gulf of Fonseca on the Pacific Ocean. If operational, the radar could be helpful in the fight against narcotrafficking.

Naco

128. (C) The small town of Naco hosts the 4th Logistical Base (CALE) and a large cache of weapons and artillery. In 1985, Longlac Enterprises, a Panamanian-registered arms importer, sent weapons to Honduras on deposit for use by the HOAF. After years of poor storage and neglect, the cache became a serious hazard, and in 1993 an explosion killed two people. In 2001 the GOH destroyed the unstable weapons, and moved the remaining weapons to a more secure storage facility -- supposedly eliminating the threat to the nearby population.

129. (C) Meanwhile, Longlac sold the cache of arms to Miami-based Samco Global Arms. For several years, there has been a complicated legal battle over the ownership of the weapons and who is responsible for removing them. Currently, the Honduran courts control the storage facility and the inventories. The legal battles become even more complicated when Samco sued the GOH in Miami and the GOH counter-claimed. Post is concerned that the weapons might fall into the hands of arms traffickers or terrorists, and we have advised the GOH of the USG willingness to assist in the destruction or disposal of the remaining cache once ownership is established.

130. (C) On July 31, the prosecutor from the Task Force

against Organized Crime conducted a spot check, accompanied by a Court Clerk from the Fourth Circuit of the Honduran Criminal Court, a DAO military attache, and a team of arms experts from the Defense Intelligence Agency. The prosecutor conducted the spot check using an inventory attested to by affidavit of the Chief Judge of the Fourth Criminal Court of San Pedro Sula and the Commander of the CALE dated July 31, 192001. Among other arms and ammunition, the inventory included 790 AKMS assault rifles that are Chinese-made AKMS type 56-1 -- copies of the Soviet folding stock AKMS. The recent spot check revealed that 230 of the AKMS are missing, presumably stolen. On August 28, the high command of the HOAF designated an Army Auditor to investigate the alleged theft of the arms.

Joint Task Force Bravo (JTF-B) Account Freeze

131. (C) This spring, an automobile accident occurred involving a USG vehicle from JTF-Bravo, causing injuries to four Hondurans, as well as vehicle damage. A civil lawsuit was filed against two JTF-B personnel, and ultimately, a court issued an order freezing the local JTF-B bank account.

132. (C) The 1954 Bilateral Military Assistance Agreement (BMAA) expressly provides that the USG funds are not subject to this sort of legal process. Eventually, the Ministry of Foreign Affairs (MFA) persuaded the Supreme Court to order that the account be freed from the inappropriate legal actions of the lower court.

Bay Islands Vetting

133. (C) In 2002, U.S. Navy and Coast Guard ships began port calls/liberty visits in the Bay Islands after a period of many years without any ship visits. We suspect that a number of businesses in the Bay Islands are owned, in whole or in part, by individuals who are suspected of being involved in narcotrafficking and other illegal activities, or who are convicted felons. Post formed a committee to gather information about Roatan hotels and their owners in order to formulate a policy regarding the patronization of such businesses -- particularly in instances where U.S. government monies are used.

Recent Military Promotions

134. (C) On December 6, 18 HOAF officers (two generals, 15 colonels and one lieutenant colonel) who are members of the twelfth promotion group unexpectedly retired. These honorable retirements came in the wake of a scandal involving General Mario Raul Hung Pacheco (also of the twelfth promotion group), who allegedly stole money from the Honduran Military Retirement Fund. Some of the retiring officers emphasized that they served their country honorably, and that the HOAF should not be judged solely by those officers who were involved in corruption. Another promotion ceremony took place on December 11 -- amongst the ranks of those officers were General Jose Isaias Barahona (the current Chief of the Joint Staff), Jorge Andino, Luis Maldonado and Rodolfo Interiano. Interiano's promotion was unexpected because of his previous problems with the Maduro Administration. He is expected to stay in Washington, DC as the Honduran Defense Attache.

A Great Tragedy

135. (U) At approximately 8:55 p.m. on December 11, a U.S. Army Black Hawk helicopter from Joint Task Force Bravo crashed while engaged in a night training exercise -- killing five (5) U.S. soldiers who belonged to the 1st Battalion, 228th Aviation Regiment. The helicopter flew from Soto Cano Air Base to La Mesa international airport in San Pedro Sula to participate in a night landing exercise. After refueling the helicopter headed back to Soto Cano, and 40 minutes later crashed into the mountains near Santa Cruz de Yojoa, which is 85 miles north of Tegucigalpa.

Embassy Tegucigalpa

136. (SBU) Embassy Tegucigalpa is a medium-sized post, employing 140 U.S. citizens and 300 Hondurans among 20 USG agencies. Our Peace Corps program, with more than 220 volunteers, is one of the world's largest, and the USAID mission had a FY02 budget of USD 34.5 million. The Mission maintains a Consular Agent in Honduras' second city and industrial center, San Pedro Sula. Five-hundred and fifty U.S. service men and women are stationed at Honduras' Soto Cano Air Base under the auspices of SOUTHCOM as Joint Task Force Bravo. In 1954, the USG and GOH signed a Bilateral Military Assistance Agreement that set forth their intention

to work closely together to foster peace and security in the Western Hemisphere. The ICC Article 98 Agreement with Honduras is therefore a particularly important accomplishment, and will enable our military forces to continue to work together in such areas as disaster recovery, joint training exercises, and counternarcotics missions.

PIERCE